

DALLAS CENTER-GRIMES COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

June 30, 2006

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DALLAS CENTER-GRIMES COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September, 2005 Election)		
Patricia Wright	President	2006
Stephen Moline	Vice President	2005
Leann Goldsmith	Board Member	2005
Douglas Rothfus	Board Member	2005
William Knoll	Board Member	2006
Dave Eilers	Board Member	2007
John Jennett	Board Member	2007

Board of Education (After September, 2005 Election)

Patricia Wright	President	2006
Douglas Rothfus	Vice President	2008
William Knoll	Board Member	2006
Dave Eilers	Board Member	2007
Angela Glasgow	Board Member	2007
Kathie Hicok	Board Member	2008
Leann Goldsmith	Board Member	2008

School Officials

Gary Sinclair	Superintendent	2006
Michelle Wearmouth	District Secretary/Treasurer and Business Manager	2006
Ralph Brown	Attorney	Indefinite
Ahler's Law Firm	Attorney	Indefinite



Independent Auditor's Report

To the Board of Education
Dallas Center-Grimes Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Dallas Center-Grimes Community School District, Dallas Center-Grimes, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Dallas Center-Grimes Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated October 4, 2006 on our consideration of Dallas Center-Grimes Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 17 and 46 through 48 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Dallas Center-Grimes Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 8 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Van Maanen & Associates, P.C.

Van Maanen & Associates, P.C.
Certified Public Accountants

October 4, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Dallas Center - Grimes Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

This is the third year since implementing new reporting standards with significant changes in content and structure, and some of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations. In many summary sections, management has added references to financial data and situations of some previous years to assist with understanding data since the FY 2004 transition year.

Financial Highlights

- ◆ General Fund revenues increased from \$11,259,726 in fiscal 2004 to \$11,892,519, while General Fund expenditures increased from \$11,309,616 in fiscal 2005 to \$11,807,585 in fiscal 2006. This resulted in an increase of \$84,934 in the District's General Fund balance from \$1,610,069 in fiscal 2005 to \$1,695,003.
- ◆ The increase in General Fund revenues was primarily attributable to an increase in open enrollment received from other school districts of \$197,756, and increased receipts of state aid and instructional support of \$441,727 attributable to increased student count and allowable growth and the new teacher quality/mentoring programs.
- ◆ The increase in General Fund expenditures was primarily attributable to an increase in the negotiated salary and benefits. There were 5.25 teaching positions added due to increase student count which also affect the salary and benefit expenditures. As student numbers increase, instructional supply expenditures increased as well.
- ◆ A decline in interest rates during the past three fiscal years has resulted in a decline in interest received annually despite a growing fund balance to be invested. However, as the general fund balance continues to grow, more interest earnings are seen. Interest received in the general fund for the past five years is: \$100,379 in FY02, \$80,753 in FY03, \$48,734 in FY04, \$103,238 in FY05, and \$109,147 in FY06.

Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- ◆ The first two statements are *government-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- ◆ The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements.
- ◆ The statements for *governmental funds* explain how basic services, such as regular and special education, were financed in the short term as well as what remains for future spending.
- ◆ The statements for *proprietary funds* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- ◆ The statements for *fiduciary funds* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

Figure A-1 shows how the various parts of this report are arranged and relate to one another.

Figure A-1
Dallas Center-Grimes Community School District Annual Financial Report

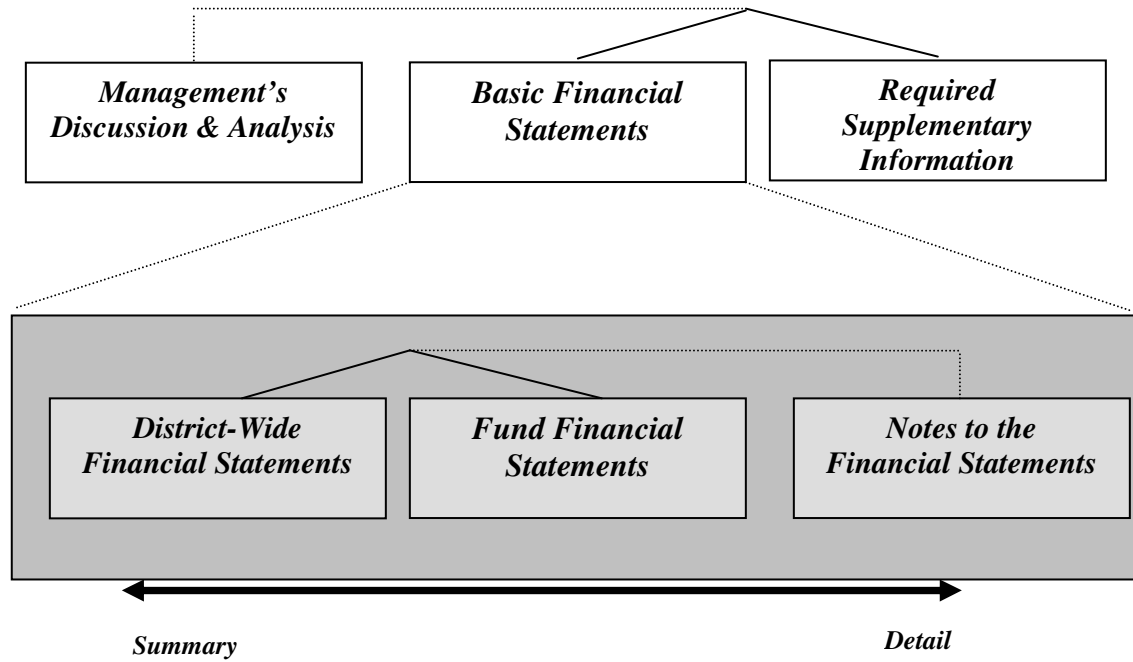


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the District-wide and Fund Financial Statements				
	District-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as the special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet Statement of revenues, expenditures, and changes in fund balances	* Statement of revenues, expenses and changes in net assets * Statement of cash flows	* Statement of fiduciary net assets * Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year; or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid
Common names of district funds included	All funds with the exception of scholarship funds	General, PPEL, Management, Schoolhouse, Student Activity, Debt Service, Capital Projects	Nutrition Fund, Farm Enterprise Account	Burnett Scholarship, Brewer Scholarship, Anderson Scholarship

District-wide Statements

The Government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two Government-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

Review of DC-G Property Tax Valuations by Year			
Year	Taxable Valuation without TIF	Increase over previous year	Percent of increase
FY2001	\$ 270,537,874	34,145,130	12.62%
FY2002	337,471,923	66,934,049	19.83%
FY2003	354,464,375	16,992,452	4.79%
FY2004	361,420,196	6,955,821	1.96%
FY2005	383,341,568	21,921,372	6.07%
FY2006	418,254,246	34,912,678	9.11%

Dallas Center – Grimes Facilities – Age	
Dallas Center – Grimes Elementary, Grimes	Opened 8-1-1988
Dallas Center – Grimes Elementary, Dallas Center	Opened 1-1-2002
Dallas Center – Grimes Middle School, Dallas Center	Opened 8-1-2004
Dallas Center – Grimes High School, Grimes	Opened 8-1-2002
Dallas Center –Grimes Auditorium Addition, Grimes	Opened 9-1-2005

In the District-wide financial statements, the District's activities are divided into two categories:

- ◆ *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- ◆ *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- ◆ Some funds are required by state law and by bond covenants.
- ◆ The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- ◆ Governmental funds: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements.



The District's governmental funds include the General Fund, Debt Service Fund, Capital Projects Funds, and Special Revenue funds such as the Student Activity fund, Management fund, PPEL fund, and Schoolhouse fund.

- ◆ Proprietary Funds: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements.



The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District's enterprise funds include the School Nutrition Fund and the Farm Enterprise Fund.

- ◆ Fiduciary Funds: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-purpose Trust and Agency funds.



Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund. There are currently three scholarship trust funds: Burnett Scholarship, Brewer Scholarship, and Anderson Scholarship funds.



Agency Fund- These are funds for which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases. The District has only one Agency fund which holds employee funds contributed by employees through payroll for use in the Medical and Dependent Care Flexible Spending Program.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District as a Whole

Net assets – Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2006 compared to 2004.

Figure A-3 Condensed Statement of Net Assets (Expressed in Thousands)							
	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-2006
Current and other assets	\$ 18,371	12,298	109	93	18,480	12,391	49.1%
Capital assets	30,183	28,860	228	256	30,411	29,116	4.4%
Total assets	<u>48,554</u>	<u>41,158</u>	<u>337</u>	<u>349</u>	<u>48,891</u>	<u>41,507</u>	<u>17.8%</u>
Long-term liabilities	27,500	22,511	-	-	27,500	22,511	22.2%
Other liabilities	<u>7,613</u>	<u>7,322</u>	<u>-</u>	<u>6</u>	<u>7,613</u>	<u>7,328</u>	<u>3.9%</u>
Total liabilities	<u>35,113</u>	<u>29,833</u>	<u>-</u>	<u>6</u>	<u>35,113</u>	<u>29,839</u>	<u>17.7%</u>
Net assets:							
Invested in capital assets, net of related debt	10,267	9,334	228	256	10,495	9,590	9.4%
Restricted	1,583	515	-	-	1,583	515	207.4%
Unrestricted	<u>1,591</u>	<u>1,476</u>	<u>109</u>	<u>87</u>	<u>1,700</u>	<u>1,563</u>	<u>8.8%</u>
Total net assets	<u>\$ 13,441</u>	<u>11,325</u>	<u>337</u>	<u>343</u>	<u>13,778</u>	<u>11,668</u>	<u>18.1%</u>

The lower percentage of increase in capital assets in the governmental funds occurred in conjunction with the increase in current or other assets as a result of unspent bond proceeds to be expended as construction funds for the new elementary. Long-term liabilities increased as a result of additional bond liabilities.

Figure A-4 shows the change in net assets for the year ended June 30, 2004.

Figure A-4 Changes in Net Assets (Expressed in Thousands)						
	Governmental Activities		Business Type Activities		Total District	
	Year ended June 30,		Year ended June 30,		Year ended June 30,	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for service	\$ 1,262	1,012	581	519	1,843	1,531
Operating grants, contributions and restricted interest	1,139	1,039	151	133	1,290	1,172
General revenues:						
Property tax	6,834	6,397	-	-	6,834	6,397
Local option sales and service tax	1,473	1,361	-	-	1,473	1,361
Unrestricted state grants	5,294	4,919	-	-	5,294	4,919
Unrestricted investment earnings	175	252	3	1	178	253
Other	77	142	-	-	77	142
Total revenues	16,254	15,122	735	653	16,989	15,775
Program expenses:						
Governmental activities:						
Instruction	8,378	7,896	-	-	8,378	7,896
Support services	4,246	4,276	-	-	4,246	4,276
Non-instructional programs	-	-	741	667	741	667
Other expenses	1,514	1,763	-	-	1,514	1,763
Total expenses	14,138	13,935	741	667	14,879	14,602
Other financing sources, net	-	-	-	105	-	105
Change in net assets	\$ 2,116	1,187	(6)	91	2,110	1,278

Property tax, sales and service tax, and unrestricted state grants account for 84% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 89% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$16,253,712 and expenses were \$14,137,653. The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5 Total and Net Cost of Governmental Activities (Expressed in Thousands)		
	Total Cost of Services	Net Cost of Services
Instruction	\$ 8,378	6,429
Support services	4,246	4,240
Other expenses	1,514	1,068
Totals	\$ 14,138	11,737



The cost financed by users of the District's programs was \$1,262,088



Federal and state government subsidized certain programs with grants and contributions totaling \$1,139,016.



The net cost of governmental activities was financed with \$8,307,448 in property and other taxes and \$5,293,550 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$735,383 and expenses were \$741,189. The District's business type activities include the School Nutrition Fund and Farm Enterprise Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2006, the District increased meal prices .10 cents per elementary and secondary level meal. The District continues to contract food services with Taher, Incorporated of Minnesota.

INDIVIDUAL FUND ANALYSIS

As previously noted, Dallas Center-Grimes Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its government funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$10,808,367. The previous year, governmental funds reported a combined fund balance of \$5,020,366 which included unexpended construction funds for the middle school construction project, and local option sales tax reserved for sports complex construction phases three and four. The bond funds for a new elementary to be located in Grimes were funded in June 2006 and reflected in the governmental funds balance as well.

Governmental Fund Highlights



The district general fund balance increased slightly in FY06. The general fund undesignated, unreserved fund balance increased from \$1,610,069 in FY05 to \$1,695,003 in FY06. The district's goal was to maintain a steady fund balance in the general fund. The district's targeted financial solvency rate is 10-15%. The solvency ratio was 14.2%.



DC-G has experienced enrollment growth, which has allowed for additional dollars to fund programs. This has allowed some of the increased cost to be covered by new funds.



Over the past six years the net impact of open enrollment has been very positive for DC-G. There is net \$410,571 more available for funding programs within our district. This is a significant increase of \$254,854 in net open enrollment over the previous year's amount of \$155,717 net open enrollment; however increased student enrollment requires additional instructional expense.



In 2001-02, DC-G implemented an instructional levy. In 2001-02, the instructional levy was 3%, in 2002-03 it was 7%, and since 2003-04 this levy has been at the maximum 10%. Prior to 2004-05, the district elected not to commit all the instructional levy dollars to spending in the same year. However, in the 2004-05 fiscal year and 2005-06, the full instructional support levy amount was committed to current year spending.



The district has implemented an extensive at-risk program, now at the maximum funding level. This has provided funding for some of the additional staff needed in the district, and has allowed the regular operating budget to absorb other increases.



The district's administrative team and school board closely monitor monthly revenue and expenditures. The board has intentionally decided not to commit funds beyond a certain level which helps maintain a relatively constant fund balance.



The Physical Plant and Equipment Levy (PEEL) fund balance decreased from \$226,188 at the end of FY05 to \$150,517 at the end of FY06. These funds were planned and expended for use in FY06 for a complete renovation of a storage building converted to a bus barn, additional school bus purchases, and meeting the increased operational maintenance associated with additional facilities.



The Capital Projects funds increased from \$1,978,827 at the close of FY05 to \$7,424,423 at the end of FY06. The funds were expended on construction completion at the middle school, phase two/three/four of the Sports Complex construction project, and for the auditorium addition. Bond funds for the newest bond approved by the public April 11, 2006 for a new elementary school were funded and reserved in the fund balance during FY06.



The Management fund balance increased from \$195,439 in FY05 to \$553,574 at FY06 year end. The district continues to rebuild the fund balance of the management fund which was depleted in FY00 when no funds were levied and the fund balance was diminished. The fund balance is held in reserve in part due to high deductible option selected with our worker's compensation insurance.

Proprietary Fund Highlights

School Nutrition cash/investments and inventories increased from \$81,813 at June 30, 2005 to \$102,600 at June 30, 2006. The Farm account cash/investments decreased from \$11,516 at the close of FY05 to \$7,133 at the close of FY06, and it is noted that this balance will continue to decline as farm rental has ceased.

BUDGETARY HIGHLIGHTS

Over the course of the year, Dallas Center - Grimes Community School District closely monitored the published budget. Budget amendments were needed in this fiscal year in three functional areas. The total support services area published budget was amended from \$4,005,346 to \$4,200,000 due to increased facilities costs and repairs. The non-instructional programs area was increased from \$575,050 to \$700,000 due to increased sales and consumption in the school nutrition program. The total other expenditures area was increased from \$4,837,448 to \$5,050,000 due to additional construction within the fiscal year. In a district with continuing growth and rapidly expanding facilities, improved projections on the increased cost related to growth must be included in the published budget.

The District's receipts were \$704,876 more than budgeted receipts, a variance of approximately 4%.

Total expenditures were under amended published projections. It is the district's practice to budget expenditures at a maximum authorized spending authority for funds, yet to manage and control the spending through the line-item budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$30.4 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of 4% from last year. More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$943,384.

Figure A-6 Capital Assets, net of Depreciation (Expressed in Thousands)							
	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-2006
Land	\$ 1,462	1,462	-	-	1,462	1,462	0.0%
Construction in progress	612	2,285	-	-	612	2,285	
Buildings	26,332	24,145	-	-	26,332	24,145	9.1%
Improvements other than buildings	1,012	300	-	-	1,012	300	237.3%
Furniture and equipment	765	668	228	256	993	924	7.5%
Totals	<u>\$ 30,183</u>	<u>28,860</u>	<u>228</u>	<u>256</u>	<u>30,411</u>	<u>29,116</u>	<u>4.4%</u>

The largest change in capital asset activity occurred in the improvements other than buildings category as phase two of the outdoor sports complex reached completion.

Long Term Debt

At June 30, 2006, the District has \$27,509,273 in general obligation, revenue and other long-term debt outstanding. This represents an increase of approximately 22.27% percent from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 5 of the financial statements.

Figure A-7 Outstanding Long-Term Obligations (Expressed in Thousands)			
	Total District		Total Change
	June 30,		June 30,
	2006	2005	2005-2006
General obligation bonds	\$ 24,865	19,380	28.3%
Revenue bonds	2,475	3,020	-18.0%
Early retirement	160	111	44.1%
Totals	<u>\$ 27,500</u>	<u>22,511</u>	<u>22.2%</u>

On April 11, 2006, the District's voters authorized the issuance of \$6,500,000 in general obligation bonds to pay for construction and furnishing an additional elementary building. On the same ballot, the District's voters adopted a public measure authorizing a ten year physical plant and equipment levy not to exceed \$1.34 per thousand of assessed valuation commencing with the collection for fiscal year 2006-07. The following reviews recent bonding and construction:

October 19, 1999	Bond issue 9.75 million for purchase of Rhinehart land, purchase of Meadows land & build/furnish high school on Meadows land 1.26 million bond sold to begin construction and make land purchases	(Levy A only) Pass Levy B - Fail
November 23, 1999	Passage of the Polk County Local Option Sales Tax Revenue bond 4.9 million for the construction of DC elementary sold on October 17, 2000	Pass
December 7, 1999	Levy B raising funds to levy at the \$4.05 mark for the \$9.75 million dollar bond issue. 9.985 GO bond sold which was remaining dollars authorized Oct. 19, 1999 and refinance Grimes elementary bond	Pass
July 16, 2002	Bond issue \$6.4 million for construction, renovation, and furnishing a new middle school in Dallas Center	Pass
March 25, 2003	Passage of the Dallas County Local Option Sales Tax Primarily used for Sports Complex construction	Pass
March 19, 2004	Began Phase One of Sports Complex project funded with Local Option Sales and Service dollars. Phase one completed October 18, 2004. Phase two to be completed October 2005.	
March 30, 2004	Bond issue 3.0 million for construction and furnishing of auditorium addition to the high school. Expected completion October 2005.	Pass
April 11, 2006	Bond issue 6.5 million for site acquisition, construction and furnishing a new elementary school	Pass
April 11, 2006	Passage of voter-approved PPEL Levy not to exceed \$1.34/\$1,000	Pass

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances which may affect financial health in the future:



The district continues to experience enrollment growth. The district's population is currently estimated at 7,080 which is approximately 6% growth over the 2000 census and over 70% growth since the 1990 census.



Unemployment for the area is lower than state average by more than 1%. New businesses continue to locate within the district. Pioneer Hybrid has moved its gene research lab to Dallas Center. Several businesses have located on the Highway 141 and the I-35/I-80 corridor.



Along with growth, transportation needs to transport students to school locations continues to grow. The district has purchased two new buses during the last year, and will need to maintain that level of purchases in the future.


















The district has a limited transportation facility at this time, and with a growing fleet the need for a central location to store and perform maintenance on the fleet increases.



In prior years, the building renovated for bus maintenance had been used for warehousing. The District will need to seek alternative central storage and warehousing, and it may be feasible to combine a bus storage and maintenance facility with central warehousing.



Fiscal 2006 is the first year of a two-year contract with the Dallas Center-Grimes Education Association. During 2005-06, the District added a contract extension through the 2007-08 school year. The District will negotiate a new agreement for Fiscal 2008-09 during the 07-08 fiscal year.

-  For the district's most recent bond, the bond rating was issued by Moody's Investing Service for the third time. The rating is A3.
-  Over the past six years, the district net open enrollment in and out number has improved dramatically. The district will need to be careful of funding ongoing expenditures with funds as variable as open enrollment. The district needs to continue to foster open enrollment to the extent that facility allow.
-  In the January 1, 2004 assessment of property, agricultural land fell by over 30% which had a significant impact upon growth in the 04-05 budget. This decrease, and the several years it will take to build back to where taxable agricultural land was previously, will have an impact on the district's bonding capacity and debt service rate.
-  In the January 1, 2006 assessment of District taxable valuation, property values increased by 9.11%. Although the District has seen valuation increases of greater than 14% in previous years, a moderate amount is being projected to plan for growth when projecting ability to bond in the future.
-  Area cities continue to discuss and use TIF as means of supporting development. All TIF, but especially residential TIFs will have a negative impact on property tax rate. The district must continue to monitor and oppose TIFs that negatively impact the district.
-  In the Grimes area, 4-5 large housing developments are open. The number of houses that are built annually will impact the district's general fund and need for additional facilities. The recent rate of growth will allow for a manageable transition to additional facilities, but accelerated rates of growth will greatly stress current facilities.
-  To the south of the Grimes area, R&R Realty has begun construction of a projected \$300 million dollar business park within school boundaries. This development will significantly increase property valuation, and will be the workplace of nearly one-thousand employees. This development may have an impact upon the enrollment of the District. Unfortunately, the area is a TIF area so general fund valuation will not grow with the development.
-  The district currently has a LOSST from Dallas and Polk Counties. How these two sales tax sources blend, depending on the impact one has on the other, will impact LOSST dollars available for facility needs.
-  The district is just beyond one-half of the way through the Polk County ten-year LOSST. This support has been valuable to the district. The continuation of this tax will be critical to the district. It is important to note that the passage of a new Polk County Local Option Sales and Service tax is unlikely. The District continues to attempt to work with other Iowa school districts across the state to support legislation to support a state-wide local option sales tax.
-  Although current facilities are in great condition, there has been an increasing need for annual facility maintenance funds, as district facilities are no longer under warranty and start to age. Much of the increased cost is associated with managing increased technology in our mechanical and electrical systems. The voters of the District approved a voted-PPEL levy to help meet the annual facility maintenance needs.
-  The rapid addition of facilities has been fostered by significant residential and commercial taxable valuation growth. A decrease in this rate of growth will likely have an impact on the district property tax rate. Although district enrollment growth has been manageable, rates of growth similar to other area districts will result in a significant impact upon facilities and in the property tax rate.
-  With the current rate of enrollment growth, it was determined construction for a new elementary facility must begin in the 2006-07 fiscal year. On April 11, 2006, the district's voters approved a new elementary to 400 – 550 students with 14 to 18 classrooms.
-  A new housing development in Dallas Center which began in Fiscal 05-06 with low to moderate sales may help to reverse the trend of declining enrollment in the Dallas County portion of the district.
-  Ongoing discussions of revisions to Highway 44, Highway 141, and the construction of a north/south bypass and/or an east/west bypass will impact the commercial and residential growth of Grimes.
-  The increase in organized efforts by the Grimes Economic Development Board may have a positive impact on district valuation and tax rates.



Energy costs continue to be an increasing portion of the district's budget. As energy costs increase, these costs will have to be covered by new funding, or by reprioritization of the current funding.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Michelle Wearmouth, Business Manager at Dallas Center-Grimes Community School District, P.O. Box 512, Dallas Center, Iowa 50063.

Basic Financial Statements

DALLAS CENTER-GRIMES COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2006

	Governmental Activities	Business type Activities	Total
Assets			
Cash and pooled investments			
Other	\$ 10,192,655	93,878	10,286,533
Bond reserve	490,000	-	490,000
Receivables:			
Property tax:			
Delinquent	70,820	-	70,820
Succeeding year	6,643,375	-	6,643,375
Accounts	5,354	-	5,354
Due from other governments	133,959	-	133,959
Inventories	-	15,855	15,855
Deferred bond costs	835,333	-	835,333
Capital assets, net of accumulated depreciation	30,182,618	227,486	30,410,104
Total assets	48,554,114	337,219	48,891,333
Liabilities			
Accounts payable	619,547	142	619,689
Salaries and benefits payable	244,301	-	244,301
Accrued interest payable	106,002	-	106,002
Deferred revenue:			
Succeeding year property tax	6,643,375	-	6,643,375
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	895,000	-	895,000
Revenue bonds payable	575,000	-	575,000
Early retirement	55,906	-	55,906
Portion due after one year:			
General obligation bonds payable	23,970,000	-	23,970,000
Revenue bonds payable	1,900,000	-	1,900,000
Early retirement	104,367	-	104,367
Total liabilities	35,113,498	142	35,113,640
Net assets			
Invested in capital assets, net of related debt	10,267,041	227,486	10,494,527
Restricted for:			
Management levy	553,574	-	553,574
Physical plant and equipment levy	150,517	-	150,517
Debt service	754,470	-	754,470
Other special revenue purposes	124,378	-	124,378
Unrestricted	1,590,636	109,591	1,700,227
Total net assets	\$ 13,440,616	337,077	13,777,693

See notes to financial statements.

Exhibit B

DALLAS CENTER-GRIMES COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year ended June 30, 2006

	Program Revenues		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	\$ 5,081,528	821,240	449,289
Special instruction	2,335,887	117,958	233,073
Other instruction	960,740	322,890	4,633
	<u>8,378,155</u>	<u>1,262,088</u>	<u>686,995</u>
Support Service:			
Student services	265,496	-	-
Instructional staff services	698,520	-	-
Administration services	1,071,912	-	-
Operating and maintenance of plant services	1,523,266	-	-
Transportation services	686,811	-	6,310
	<u>4,246,005</u>	<u>-</u>	<u>6,310</u>
Other expenditures:			
Long-term debt interest	1,067,782	-	-
AEA flowthrough	445,711	-	445,711
	<u>1,513,493</u>	<u>-</u>	<u>445,711</u>
Total governmental activities	14,137,653	1,262,088	1,139,016
Business type activities:			
Non-instructional programs:			
Nutrition services	736,806	581,067	150,928
Farm account	4,383	-	-
	<u>741,189</u>	<u>581,067</u>	<u>150,928</u>
Total primary government	<u>\$ 14,878,842</u>	<u>1,843,155</u>	<u>1,289,944</u>

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(3,810,999)	-	(3,810,999)
(1,984,856)	-	(1,984,856)
(633,217)	-	(633,217)
(6,429,072)	-	(6,429,072)
(265,496)	-	(265,496)
(698,520)	-	(698,520)
(1,071,912)	-	(1,071,912)
(1,523,266)	-	(1,523,266)
(680,501)	-	(680,501)
(4,239,695)	-	(4,239,695)
(1,067,782)	-	(1,067,782)
-	-	-
(1,067,782)	-	(1,067,782)
(11,736,549)	-	(11,736,549)
-	(4,811)	(4,811)
-	(4,383)	(4,383)
-	(9,194)	(9,194)
(11,736,549)	(9,194)	(11,745,743)

Exhibit B

DALLAS CENTER-GRIMES COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year ended June 30, 2006

	Program Revenues		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest
Totals from previous page	\$ 14,878,842	1,843,155	1,289,944
General Revenues:			
Property tax levied for:			
General purposes			
Debt service			
Capital outlay			
Local option sales and services tax			
Unrestricted state grants			
Unrestricted investment earnings			
Other			
Gifts to Dallas Center-Grimes Community School District			
Total general revenues			
Change in net assets			
Net assets beginning of year			
Net assets end of year			

See notes to financial statements.

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(11,736,549)	(9,194)	(11,745,743)
5,008,820	-	5,008,820
1,692,414	-	1,692,414
133,276	-	133,276
1,472,938	-	1,472,938
5,293,550	-	5,293,550
174,620	3,388	178,008
64,912	-	64,912
12,078	-	12,078
13,852,608	3,388	13,855,996
2,116,059	(5,806)	2,110,253
11,324,557	342,883	11,667,440
\$ 13,440,616	337,077	13,777,693

DALLAS CENTER-GRIMES COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
Assets and Other Debits					
Cash and pooled investments					
Other	\$ 1,929,695	7,850	7,365,767	889,343	10,192,655
Bond reserve	-	-	490,000	-	490,000
Receivables:					
Property tax:					
Current year delinquent	45,296	17,289	-	8,235	70,820
Succeeding year	4,935,902	986,181	-	721,292	6,643,375
Accounts	5,354	-	-	-	5,354
Due from other governments	26,157	-	107,802	-	133,959
Deferred bond costs	-	835,333	-	-	835,333
Total assets and other debits	\$ 6,942,404	1,846,653	7,963,569	1,618,870	18,371,496
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 67,198	-	539,146	13,203	619,547
Salaries and benefits payable	244,301	-	-	-	244,301
Early retirement payable	-	-	-	55,906	55,906
Deferred revenue:					
Succeeding year property tax	4,935,902	986,181	-	721,292	6,643,375
Total liabilities	5,247,401	986,181	539,146	790,401	7,563,129
Fund balances:					
Reserved for:					
Debt service	-	860,472	-	-	860,472
Unreserved:					
Undesignated	1,695,003	-	7,424,423	828,469	9,947,895
Total fund balances	1,695,003	860,472	7,424,423	828,469	10,808,367
Total liabilities and fund balances	\$ 6,942,404	1,846,653	7,963,569	1,618,870	18,371,496

See notes to financial statements.

DALLAS CENTER-GRIMES COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2006

Total fund balances of governmental funds (Exhibit C) \$ 10,808,367

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.

30,182,618

Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.

(106,002)

Long-term liabilities, including bonds payable and early retirement, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.

(27,444,367)

Net assets of governmental activities (Exhibit A)

\$ 13,440,616

See notes to financial statements.

Exhibit E

DALLAS CENTER-GRIMES COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year ended June 30, 2006

	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
Revenues:					
Local sources:					
Local tax	\$ 4,347,379	1,692,414	1,472,938	794,717	8,307,448
Tuition	762,661	-	-	-	762,661
Other	348,737	5,922	62,620	331,899	749,178
State sources	6,250,139	470	-	213	6,250,822
Federal sources	183,603	-	-	-	183,603
Total revenues	11,892,519	1,698,806	1,535,558	1,126,829	16,253,712
Expenditures:					
Current:					
Instruction:					
Regular instruction	5,087,223	-	-	77,058	5,164,281
Special instruction	2,283,500	-	-	-	2,283,500
Other instruction	225,636	-	-	294,384	520,020
	7,596,359	-	-	371,442	7,967,801
Support services:					
Student services	262,652	-	-	-	262,652
Instructional staff services	607,481	-	-	-	607,481
Administration services	996,498	-	8,250	15,392	1,020,140
Operation and maintenance of plant services	1,310,861	-	-	229,895	1,540,756
Transportation services	588,023	-	-	89,571	677,594
	3,765,515	-	8,250	334,858	4,108,623
Other expenditures:					
Facilities acquisition	-	-	1,723,712	106,853	1,830,565
Long-term debt:					
Principal	-	1,475,000	-	-	1,475,000
Interest and fiscal charges	-	913,983	-	-	913,983
Bond issuance costs	-	59,667	79,361	-	139,028
AEA flowthrough	445,711	-	-	-	445,711
	445,711	2,448,650	1,803,073	106,853	4,804,287
Total expenditures	11,807,585	2,448,650	1,811,323	813,153	16,880,711
Excess (deficiency) of revenues over (under) expenditures	84,934	(749,844)	(275,765)	313,676	(626,999)
Other financing sources (uses):					
Bond proceeds	-	-	6,415,000	-	6,415,000
Interfund transfer	-	693,633	(693,633)	-	-
Total other financing sources	-	693,633	5,721,367	-	6,415,000
Net change in fund balances	84,934	(56,211)	5,445,602	313,676	5,788,001
Fund balances beginning of year	1,610,069	916,683	1,978,821	514,793	5,020,366
Fund balances end of year	\$ 1,695,003	860,472	7,424,423	828,469	10,808,367

See notes to financial statements.

DALLAS CENTER-GRIMES COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 Year ended June 30, 2006

Net change in fund balances - total governmental funds (Exhibit E) \$ 5,788,001

***Amounts reported for governmental activities in the
 statement of activities are different because:***

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 2,266,260	
Depreciation expense	<u>(943,384)</u>	1,322,876

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.

1,475,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

(14,771)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement	(40,047)
------------------	----------

Proceeds of long-term debt provide current financial resources to governmental funds but increase long-term liabilities in the Statement of Net Assets.

(6,415,000)

Change in net assets of governmental activities (Exhibit B)

\$ 2,116,059

See notes to financial statements.

DALLAS CENTER-GRIMES COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2006

	<u>Enterprise Funds</u>
Assets	
Cash and cash equivalents	\$ 93,878
Inventories	15,855
Capital assets, net of accumulated depreciation	<u>227,486</u>
Total assets	<u>337,219</u>
Liabilities	
Accounts payable	<u>142</u>
Total liabilities	<u>142</u>
Net assets	
Invested in capital assets, net of related debt	227,486
Unrestricted	<u>109,591</u>
Total net assets	<u>\$ 337,077</u>

See notes to financial statements.

Exhibit H

DALLAS CENTER-GRIMES COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year ended June 30, 2006

	<u>Enterprise Funds</u>
Operating revenues:	
Local sources	
Charges for service	<u>\$ 581,067</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries and benefits	65,818
Benefits	21,875
Purchased services	588,097
Supplies	32,463
Depreciation	28,553
	<u>736,806</u>
Farm rental operations:	
Supplies	<u>4,383</u>
Total operating expenses	<u>741,189</u>
Operating loss	<u>(160,122)</u>
Non-operating revenues:	
State sources	7,773
Federal sources	143,155
Local sources	3,388
Total non-operating revenues	<u>154,316</u>
Changes in net assets	(5,806)
Net assets beginning of year	<u>342,883</u>
Net assets end of year	<u><u>\$ 337,077</u></u>

See notes to financial statements.

DALLAS CENTER-GRIMES COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year ended June 30, 2006

	Enterprise Funds
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 578,958
Cash received from miscellaneous operating activities	2,109
Cash payments to employees for services	(87,693)
Cash payments to suppliers for goods or services	(599,804)
Net cash used by operating activities	<u>(106,430)</u>
Cash flows from non-capital financing activities:	
State grants received	7,773
Federal grants received	111,127
Net cash provided by non-capital financing activities	<u>118,900</u>
Cash flows from investing activities:	
Interest on investments	<u>3,450</u>
Net increase in cash and cash equivalents	15,920
Cash and cash equivalents at beginning of year	<u>77,958</u>
Cash and cash equivalents at end of year	<u><u>\$ 93,878</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (160,122)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	32,028
Depreciation	28,553
(Increase) in inventories	(546)
(Decrease) in accounts payable	(6,343)
Net cash used by operating activities	<u><u>\$ (106,430)</u></u>
Reconciliation of cash and cash equivalents at year end to specific assets included on Statement of Net Assets:	
Current assets:	
Cash and investments	\$ 93,878
Cash and cash equivalents at year end	<u><u>\$ 93,878</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2006, the District received federal commodities valued at \$32,028.

See notes to financial statements.

DALLAS CENTER-GRIMES COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2006

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Cash and pooled investments	\$ 112,483	5,673
Total assets	112,483	5,673
Liabilities		
Accounts payable	-	5,673
Total liabilities	-	5,673
Net assets		
Reserved for scholarships	112,483	-
Total net assets	\$ 112,483	-

See notes to financial statements.

Exhibit K

DALLAS CENTER-GRIMES COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year ended June 30, 2006

	<u>Private Purpose Trust Scholarship</u>
Additions:	
Local sources:	
Gifts and contributions	\$ 27,820
Interest income	3,585
Total additions	<u>31,405</u>
Deductions:	
Support services:	
Scholarships awarded	<u>18,700</u>
Change in net assets	12,705
Net assets beginning of year	<u>99,778</u>
Net assets end of year	<u><u>\$ 112,483</u></u>

See notes to financial statements.

DALLAS CENTER-GRIMES COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(1) Summary of Significant Accounting Policies

The Dallas Center-Grimes Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Dallas Center and Grimes, Iowa, and the predominate agricultural territory in Dallas County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Dallas Center-Grimes Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District.

Dallas Center-Grimes Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Dallas County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

DALLAS CENTER-GRIMES COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary funds consist of two Enterprise funds: School Nutrition and School Farm Account. These funds are used to account for the food service operations and farm rental operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The Government-wide, proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied.

DALLAS CENTER-GRIMES COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary funds of the District apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

DALLAS CENTER-GRIMES COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable – Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expense when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business type activities columns in the Government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 2,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	1,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Estimated
Useful Lives

DALLAS CENTER-GRIMES COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

<u>Asset Class</u>	<u>(In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term Liabilities – In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures in the instruction and non-instruction functional areas exceeded the amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

DALLAS CENTER-GRIMES COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

At June 30, 2006, the District had investments in the Iowa Schools Joint Investment Trust as follows:

Diversified Portfolio	\$8,751,215
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The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

(3) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	<u>\$693,633</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

DALLAS CENTER-GRIMES COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

(4) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,462,000	-	-	1,462,000
Construction in progress	2,284,980	612,160	2,284,980	612,160
Total capital assets not being depreciated	3,746,980	612,160	2,284,980	2,074,160
Capital assets being depreciated:				
Buildings	27,551,551	2,832,004	-	30,383,555
Improvements other than buildings	679,375	757,073	-	1,436,448
Furniture and equipment	1,943,472	350,003	-	2,293,475
Total capital assets being depreciated	30,174,398	3,939,080	-	34,113,478
Less accumulated depreciation for:				
Buildings	3,407,034	645,027	-	4,052,061
Improvements other than buildings	379,460	44,579	-	424,039
Furniture and equipment	1,275,142	253,778	-	1,528,920
Total accumulated depreciation	5,061,636	943,384	-	6,005,020
Total capital assets being depreciated, net	25,112,762	2,995,696	-	28,108,458
Governmental activities capital assets, net	\$ 28,859,742	3,607,856	2,284,980	30,182,618
Business type activities:				
Furniture and equipment	\$ 345,879	-	3,245	342,634
Less accumulated depreciation	89,840	28,553	3,245	115,148
Business type activities capital assets, net	\$ 256,039	(28,553)	-	227,486
Depreciation expense was charged by the District as follows:				
Governmental activities:				
Instruction:				
Regular				\$ 219,905
Special				52,387
Other				440,720
Support services:				
Student support				2,844
Instructional staff				91,039
Administration				51,772
Operation and maintenance of plant				5,620
Transportation				79,097
				943,384
Unallocated depreciation				-
Total governmental activities depreciation expense				\$ 943,384
Business type activities:				
Food services				\$ 28,553

DALLAS CENTER-GRIMES COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

(5) Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2006 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Refunded	Balance End of Year	Due Within One Year
General obligation bonds	\$ 19,380,000	6,415,000	930,000		24,865,000	895,000
Revenue bonds	3,020,000	-	545,000	-	2,475,000	575,000
Early retirement	110,655	97,965	48,347	-	160,273	55,906
Total	\$ 22,510,655	6,512,965	1,523,347	-	27,500,273	1,525,906

General Obligation Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

Year ending June 30,	Bond Issue of November 1, 2002			Bond Issue of July 1, 2004		
	Interest Rate %	Principal	Interest	Interest Rate %	Principal	Interest
2007	3.00	\$ 155,000	261,282	3.00	45,000	144,192
2008	3.00	160,000	257,032	3.25	10,000	142,843
2009	3.00	200,000	252,232	3.50	10,000	142,517
2010	5.00	210,000	246,232	3.75	10,000	142,168
2011	5.00	230,000	235,732	4.10	10,000	141,792
2012	5.00	240,000	224,232	4.25	10,000	141,383
2013	4.00	250,000	212,232	4.25	10,000	140,957
2014	3.70	260,000	202,232	4.30	10,000	140,533
2015	3.85	275,000	192,612	4.30	10,000	140,102
2016	4.00	285,000	182,025	4.30	10,000	139,673
2017	4.10	305,000	170,625	4.40	10,000	139,242
2018	4.15	315,000	158,120	4.45	10,000	138,803
2019	4.25	325,000	145,047	4.50	10,000	138,357
2020	4.30	345,000	131,235	4.55	10,000	137,908
2021	4.40	1,275,000	116,400	4.65	10,000	137,452
2022	4.50	1,340,000	60,300	4.75	5,000	136,988
2023	-	-	-	5.00	1,335,000	136,750
2024	-	-	-	5.00	1,400,000	70,000
		<u>\$ 6,170,000</u>	<u>3,047,570</u>		<u>2,925,000</u>	<u>2,451,660</u>

DALLAS CENTER-GRIMES COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Year ending June 30,	Bond Issue of April 1, 2005			Bond Issue of June 1, 2006		
	Interest Rate %	Principal	Interest	Interest Rate %	Principal	Interest
2007	2.50	\$ 580,000	306,700	3.900	115,000	264,575
2008	2.60	590,000	292,200	3.900	160,000	260,090
2009	2.70	575,000	276,860	3.900	160,000	253,850
2010	2.90	590,000	261,335	3.900	160,000	247,610
2011	3.00	600,000	244,225	3.900	165,000	241,370
2012	3.10	620,000	226,225	3.900	175,000	234,935
2013	3.20	640,000	207,005	3.900	180,000	228,110
2014	3.30	665,000	186,525	3.900	185,000	221,090
2015	3.40	680,000	164,580	3.950	195,000	213,875
2016	3.50	700,000	141,460	4.000	205,000	206,173
2017	3.60	735,000	116,960	4.050	195,000	197,972
2018	3.70	765,000	90,500	4.100	200,000	190,075
2019	3.80	790,000	62,195	4.100	215,000	181,875
2020	3.90	825,000	32,175	4.125	220,000	173,060
2021	-	-	-	4.150	90,000	163,985
2022	-	-	-	4.200	90,000	160,250
2023	-	-	-	4.200	165,000	156,470
2024	-	-	-	4.200	170,000	149,540
2025	-	-	-	4.200	1,650,000	142,400
2026	-	-	-	4.250	1,720,000	73,100
		<u>\$ 9,355,000</u>	<u>2,608,945</u>		<u>6,415,000</u>	<u>3,960,405</u>

Year ending June 30,	Total		
	Principal	Interest	Total
2007	\$ 895,000	976,749	1,871,749
2008	920,000	952,165	1,872,165
2009	945,000	925,459	1,870,459
2010	970,000	897,345	1,867,345
2011	1,005,000	863,119	1,868,119
2012	1,045,000	826,775	1,871,775
2013	1,080,000	788,304	1,868,304
2014	1,120,000	750,380	1,870,380
2015	1,160,000	711,169	1,871,169
2016	1,200,000	669,331	1,869,331
2017	1,245,000	624,799	1,869,799
2018	1,290,000	577,498	1,867,498
2019	1,340,000	527,474	1,867,474
2020	1,400,000	474,378	1,874,378
2021	1,375,000	417,837	1,792,837
2022	1,435,000	357,538	1,792,538
2023	1,500,000	293,220	1,793,220
2024	1,570,000	219,540	1,789,540
2025	1,650,000	142,400	1,792,400
2026	1,720,000	73,100	1,793,100
	<u>\$ 24,865,000</u>	<u>12,068,580</u>	<u>36,933,580</u>

DALLAS CENTER-GRIMES COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS June 30, 2006

Revenue Bonds Payable

Details of the District's June 30, 2006 local option sales and services tax revenue bonded indebtedness are as follows:

Year ending June 30,	Bond Issue of November 1, 2000			
	Interest Rate %	Principal	Interest	Total
2007	5.13	\$ 575,000	120,701	695,701
2008	4.75	600,000	91,233	691,233
2009	4.80	635,000	62,733	697,733
2010	4.85	665,000	32,253	697,253
		<u>\$ 2,475,000</u>	<u>306,920</u>	<u>2,781,920</u>

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District.

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

- a) The bonds will only be redeemed from the future earnings of the local option sales tax revenues received by the District and the bond holders hold a lien on the future revenues received.
- b) As a requirement of the bond issue, ten percent of the \$4,900,000 bond proceeds are to be held in a restricted account as required by the Security and Source Payments section of the agreement.

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended 2006, 2005 and 2004. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004, were \$476,997, \$389,961, and \$360,323, respectively, equal to the required contributions for each year.

(7) Termination Benefits

The District offers a voluntary early retirement plan to its full-time, certified employees. Eligible employees must be at least age fifty-five and must have completed fifteen years of continuous service to the District, except for administrators who must have completed ten years. Employees must complete an application which is subject to approval by the Board of Education. The benefits are arrived at by taking the average salary over the last fifteen years times a percentage at the time of early retirement. The percentage starts at 25% at age 55 and decreases each year to 0% at age 65. Early retirement expenditures for the year ended June 30, 2006 totaled \$48,347.

DALLAS CENTER-GRIMES COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(8) Risk Management

Dallas Center-Grimes Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$445,711 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Construction Commitment

The District has entered into various contracts totaling \$1,369,010 for the construction of a new athletic facility. As of June 30, 2006, costs of \$612,160 had been incurred against the contracts. The balance of \$756,850 remaining at June 30, 2006 will be paid as work on the project progresses.

(11) Related Party Transaction

The District had business transactions totaling \$12,833 between the District and District officials during the year ended June 30, 2006.

(12) Restatements

Due to an error in reporting of deferred bond costs, the beginning fund balance of the Debt Service fund has been adjusted up \$895,000 and the beginning fund balance of the Capital Projects fund has been adjusted down the same amount.

DALLAS CENTER-GRIMES COMMUNITY SCHOOL DISTRICT

Required Supplementary Information

DALLAS CENTER-GRIMES COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN BALANCES - BUDGET AND ACTUAL - ALL GOVERNMENTAL
FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual
Revenues:		
Local sources	\$ 9,819,287	584,455
Intermediate sources	-	-
State sources	6,250,822	7,773
Federal sources	183,603	143,155
Total revenues	<u>16,253,712</u>	<u>735,383</u>
Expenditures:		
Instruction	7,967,801	-
Support services	4,108,623	-
Non-instructional programs	-	741,189
Other expenditures	4,804,287	-
Total expenditures	<u>16,880,711</u>	<u>741,189</u>
Excess (deficiency) of revenues over (under) expenditures	(626,999)	(5,806)
Other financing sources, net	<u>6,415,000</u>	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures	5,788,001	(5,806)
Balance beginning of year	<u>5,020,366</u>	<u>342,883</u>
Balance end of year	<u><u>\$ 10,808,367</u></u>	<u><u>337,077</u></u>

See accompanying independent auditor's report.

Total Actual	Budgeted Amounts		Final to Actual Variance-Favorable (Unfavorable)
	Original	Final	
10,403,742	9,737,224	9,737,224	666,518
-	5,000	5,000	(5,000)
6,258,595	6,245,982	6,245,982	12,613
326,758	296,513	296,513	30,245
16,989,095	16,284,719	16,284,719	704,376
7,967,801	7,881,370	7,881,370	(86,431)
4,108,623	4,005,246	4,200,000	91,377
741,189	575,050	700,000	(41,189)
4,804,287	4,837,448	5,050,000	245,713
17,621,900	17,299,114	17,831,370	209,470
(632,805)	(1,014,395)	(1,546,651)	913,846
6,415,000	-	-	6,415,000
5,782,195	(1,014,395)	(1,546,651)	7,328,846
5,363,249	4,145,770	4,145,770	1,217,479
11,145,444	3,131,375	2,599,119	8,546,325

DALLAS CENTER-GRIMES COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
Year ended June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$532,256.

During the year ended June 30, 2006, expenditures in the instruction and non-instruction functions exceeded the amounts budgeted.

Other Supplementary Information

DALLAS CENTER-GRIMES COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 June 30, 2006

	Management Levy	Student Activity	Physical Plant and Equipment Levy	Total
Assets				
Cash and pooled investments	\$ 602,872	128,741	157,730	889,343
Receivables:				
Property tax:				
Current year delinquent	6,892	-	1,343	8,235
Succeeding year	155,001	-	566,291	721,292
Total assets	\$ 764,765	128,741	725,364	1,618,870
Liabilities and Fund Equity				
Liabilities:				
Accounts Payable	\$ 284	4,363	8,556	13,203
Early retirement payable	55,906	-	-	55,906
Deferred revenue:				
Succeeding year property tax	155,001	-	566,291	721,292
Total liabilities	211,191	4,363	574,847	790,401
Fund equity:				
Unreserved, undesignated fund balance	553,574	124,378	150,517	828,469
Total liabilities and fund equity	\$ 764,765	128,741	725,364	1,618,870

See accompanying independent auditor's report.

Schedule 2

DALLAS CENTER-GRIMES COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 NONMAJOR SPECIAL REVENUE FUNDS
 Year ended June 30, 2006

	Management Levy	Student Activity	Physical Plant and Equipment Levy	Total
Revenues:				
Local sources:				
Local tax	\$ 661,441	-	133,276	794,717
Other	49	325,596	6,254	331,899
State sources	179	-	34	213
Total revenues	661,669	325,596	139,564	1,126,829
Expenditures:				
Current:				
Instruction:				
Regular instruction	77,058	-	-	77,058
Other instruction	-	294,384	-	294,384
Support Services:				
Administration services	-	-	15,392	15,392
Operation and maintenance of plant services	206,785	-	23,110	229,895
Transportation services	19,691	-	69,880	89,571
Other expenditures:				
Facilities acquisition	-	-	106,853	106,853
Total expenditures	303,534	294,384	215,235	813,153
Excess (deficiency) of revenues over (under) expenditures	358,135	31,212	(75,671)	313,676
Fund balance beginning of year	195,439	93,166	226,188	514,793
Fund balance end of year	\$ 553,574	124,378	150,517	828,469

See accompanying independent auditor's report.

DALLAS CENTER-GRIMES COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 Year ended June 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures	Transfers	Balance end of Year
Annals	\$ -	7,368	7,224	-	144
Art Club	62	6	-	-	68
Athletics	5,801	21,327	18,935	(4,146)	4,047
Athletics Resale	-	31,655	33,572	8,566	6,649
HS Band Fundraiser	1,880	9,304	3,317	(3,306)	4,561
HS Band Resale	-	4,904	7,616	3,260	548
Baseball	-	4,016	6,705	2,689	-
Boosters	-	43,231	51,473	8,242	-
Boys/Girls Basketball	798	13,670	9,318	778	5,928
Camps and Clinics	3,905	21,038	14,726	-	10,217
Class of:					
2005	444	-	-	-	444
2006	1,709	675	1,706	-	678
2007	1,715	674	766	-	1,623
2008	2,305	2,450	100	-	4,655
2009	-	2,480	20	-	2,460
2010	-	216	-	-	216
Co-ed Track	-	3,459	5,311	2,119	267
Cross Country	-	424	670	246	-
DC Memorial Bricks	1,198	1,195	-	-	2,393
DC Presbyt Student Emerg Fund	4,098	50	200	-	3,948
Debate	-	377	685	308	-
Debate League	52	908	657	(303)	-
Drama	-	3,170	1,550	-	1,620
Drill Team	319	-	-	-	319
Football	3,555	29,563	20,010	(12,945)	163
French Club	495	120	150	-	465
FFA	2,794	13,441	8,489	-	7,746
FHA	740	681	494	-	927
Girls Softball	-	4,881	8,935	4,223	169
Golf	-	274	2,272	1,998	-
HS Student Council	3,072	3,900	2,727	-	4,245
HS Honor Society	-	40	111	71	-
HS Cheerleading	2,931	108	1,754	-	1,285
HS Candy Machine	-	-	12	12	-
HS Juice/Pop Machine	2,427	5,597	5,400	(88)	2,536
HS Sign-Monument Fundraiser	3,173	2,137	-	(2,954)	2,356
HS Vocal Fundraiser	50	15	-	-	65
HS Vocal Registration	-	1,859	1,905	46	-
Horticulture Club	732	860	766	-	826
Interest	1,619	2,828	259	(3,913)	275
Mid Iowa Soccer	238	6,099	6,883	736	190
Miscellaneous	-	-	-	-	-
Musical	6,345	-	1,270	-	5,075
P.A.L.S.	187	185	-	-	372
Picture Fund	5,322	9,196	7,905	(5,412)	1,201
SADD	68	1,070	388	-	750
Spanish Club	6,430	1,099	825	-	6,704

Schedule 3

DALLAS CENTER-GRIMES COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 Year ended June 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures	Transfers	Balance end of Year
Volleyball	-	4,119	4,671	552	-
Washington DC fundraiser	202	11,743	11,644	-	301
Wind Commissioning Project	1,000	-	-	-	1,000
Wrestling	669	4,881	5,317	400	633
Jr. High Annual	1,865	3,172	3,380	-	1,657
Jr. High Cheerleading	2,694	9,744	6,680	-	5,758
Jr. High Juice/Pop Machine	1,007	7,014	5,528	-	2,493
Jr. High Student Council	1,880	1,570	1,799	-	1,651
MS Athletics	1,813	1,444	-	(1,178)	2,079
MS Band Fundraiser	1,909	1,459	-	-	3,368
MS Band Resale	432	2,482	2,884	-	30
Elementary Band Resale	156	1,135	678	(229)	384
Elementary Vocal Resale	1	-	259	258	-
Spec underwriters Equip repair	8	1,619	1,624	-	3
Elementary Fundraiser - Grimes	987	-	1,180	193	-
Elementary Fundraiser - D.C.	3,671	5,434	3,322	-	5,783
Elementary Juice Fund	8,692	12,522	7,860	(251)	13,103
Elementary Student Council	1,716	708	2,452	28	-
Total	\$ 93,166	325,596	294,384	-	124,378

See accompanying independent auditor's report.

DALLAS CENTER-GRIMES COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 June 30, 2006

	Enterprise Funds		
	School Nutrition	Farm Account	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 86,745	7,133	93,878
Inventories	15,855	-	15,855
Total current assets	102,600	7,133	109,733
Non-current assets:			
Machinery and equipment	342,634	-	342,634
Accumulated depreciation	(115,148)	-	(115,148)
Total non-current assets	227,486	-	227,486
Total assets	330,086	7,133	337,219
Liabilities			
Current liabilities:			
Accounts payable	142	-	142
Total current liabilities	142	-	142
Net assets			
Invested in capital assets, net of related debt	227,486	-	227,486
Unrestricted	102,458	7,133	109,591
Total net assets	\$ 329,944	7,133	337,077

See accompanying independent auditor's report.

DALLAS CENTER-GRIMES COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
 NET ASSETS - PROPRIETARY FUNDS
 Year ended June 30, 2006

	Enterprise Funds		
	School Nutrition	Farm Account	Total
Operating revenue:			
Local sources:			
Other local sources:			
Food service sales	\$ 578,958	-	578,958
Other revenue	2,109	-	2,109
Total operating revenues	581,067	-	581,067
Operating expenses:			
Non-instructional programs:			
Food services operations:			
Salaries	65,818	-	65,818
Benefits	21,875	-	21,875
Services	588,097	-	588,097
Supplies	32,463	-	32,463
Depreciation	28,553	-	28,553
Farm rental operations:			
Supplies	-	4,383	-
Total operating expenses	736,806	4,383	741,189
Operating loss	(155,739)	(4,383)	(160,122)
Non-operating revenue:			
Interest on investments	3,388	-	3,388
State lunch and breakfast program claims	7,773	-	7,773
National School Lunch Program	99,456	-	99,456
School Breakfast Program	11,671	-	11,671
Federal food commodities revenue	32,028	-	32,028
Total non-operating revenues	154,316	-	154,316
Net loss	(1,423)	(4,383)	(5,806)
Net assets beginning of year	331,367	11,516	342,883
Net assets end of year	\$ 329,944	7,133	337,077

See accompanying independent auditor's report.

DALLAS CENTER-GRIMES COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 Year ended June 30, 2006

	Enterprise Funds		
	School Nutrition	Farm Account	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 578,958	-	578,958
Cash received from miscellaneous operating activities	2,109	-	2,109
Cash payments to employees for services	(87,693)	-	(87,693)
Cash payments to suppliers for goods or services	(595,421)	(4,383)	(599,804)
Net cash used by financing activities	(102,047)	(4,383)	(106,430)
Cash flows from non-capital financing activities:			
State grants received	7,773	-	7,773
Federal grants received	111,127	-	111,127
Net cash provided by non-capital financing activities	118,900	-	118,900
Cash flows from investing activities:			
Interest on investments	3,450	-	3,450
Net increase in cash and cash equivalents	20,303	(4,383)	15,920
Cash and cash equivalents at beginning of year	66,442	11,516	77,958
Cash and cash equivalents at end of year	\$ 86,745	7,133	93,878
Reconciliation of operating loss to net cash used by operating activities:			
Operating loss	\$ (155,739)	(4,383)	(160,122)
Adjustments to reconcile operating loss to net cash used by operating activities:			
Commodities received	32,028	-	32,028
Depreciation	28,553	-	28,553
Increase in inventories	(546)	-	(546)
Decrease in payables	(6,343)	-	(6,343)
Net cash used by operating activities	\$ (102,047)	(4,383)	(106,430)
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:			
Current assets:			
Cash and investments	\$ 86,745	7,133	93,878
Cash and cash equivalents at year end	\$ 86,745	7,133	93,878

Non-cash investing, capital and financing activities:

During the year ended June 30, 2006, the District received federal commodities valued at \$32,028.

See accompanying independent auditor's report.

Schedule 7

DALLAS CENTER-GRIMES COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUND
 Year ended June 30, 2006

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash	\$ 5,196	54,677	54,200	5,673
Total assets	\$ 5,196	54,677	54,200	5,673
Liabilities				
Accounts payable	\$ 5,196	54,677	54,200	5,673
Total liabilities	\$ 5,196	54,677	54,200	5,673

See accompanying independent auditor's report.

DALLAS CENTER-GRIMES COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUNDS
 FOR THE LAST FIVE YEARS

	Modified Accrual Basis				
	2006	2005	2004	2003	2002
Revenues:					
Local sources:					
Local tax	\$ 8,307,448	7,758,249	7,252,099	6,885,291	5,639,466
Tuition	762,661	551,096	495,100	391,003	314,990
Other	749,178	853,784	588,265	763,894	1,239,438
Intermediate sources	-	9,160	4,994	3,703	12,781
State sources	6,250,822	5,759,194	5,491,763	5,412,384	5,528,870
Federal sources	183,603	190,888	188,262	136,033	91,365
Total	<u>\$ 16,253,712</u>	<u>15,122,371</u>	<u>14,020,483</u>	<u>13,592,308</u>	<u>12,826,910</u>
Expenditures:					
Instruction:					
Regular instruction	\$ 5,164,281	4,836,598	4,703,605	4,400,590	4,525,336
Special instruction	2,283,500	1,726,074	1,431,814	1,415,187	1,162,614
Other instruction	520,020	833,671	732,951	722,347	803,495
Support services:					
Student services	262,652	274,129	295,459	287,944	276,579
Instructional staff services	607,481	596,483	504,541	517,441	488,846
Administration services	1,020,140	996,449	888,813	912,383	872,157
Operation and maintenance of plant services	1,540,756	1,448,043	1,313,900	1,180,972	914,528
Transportation services	677,594	705,590	525,324	397,907	379,505
Central support services	-	-	6,484	17,002	-
Other expenditures:					
Facilities acquisition	1,830,565	4,100,500	5,399,710	2,516,067	6,942,125
Long-term debt:					
Principal	1,475,000	1,090,000	925,000	950,000	900,000
Interest and other charges	1,053,011	1,115,523	1,165,404	815,501	865,061
AEA flowthrough	445,711	412,728	405,946	419,009	409,628
Total	<u>\$ 16,880,711</u>	<u>18,135,788</u>	<u>18,298,951</u>	<u>14,552,350</u>	<u>18,539,874</u>

See accompanying independent auditor's report.

**Van Maanen
& ASSOCIATES, P.C.**

Certified Public Accountants

705 Main St.
Pella, IA 50219
641-628-3737

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of
Dallas Center-Grimes Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Dallas Center-Grimes Community School District, Dallas Center-Grimes, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents and have issued our report thereon dated October 4, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Dallas Center-Grimes Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. However, we noted no matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions as defined above.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we noted no matters involving the internal control and its operation that we consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Dallas Center-Grimes Community School District and other parties to whom the District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Dallas Center-Grimes Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Van Maanen & Associates, P.C.

Van Maanen & Associates, P.C.
Certified Public Accountants

October 4, 2006

DALLAS CENTER-GRIMES COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year ended June 30, 2006

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) The audit did not disclose any reportable conditions in internal control over financial reporting.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE

No matters were noted.

REPORTABLE CONDITIONS

No matters were noted.

Part III: Findings and Questioned Costs for Federal Awards:

Not applicable since less than \$500,000 in federal awards.

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-06 Certified Budget - Disbursements for the year ended June 30, 2006, exceeded the certified budget amount in the instruction and non-instruction functional areas.

 Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa Before disbursements were allowed to exceed the budget.

 Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

 Conclusion - Response accepted.
- IV-B-06 Questionable Expenditures - No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- IV-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

DALLAS CENTER-GRIMES COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year ended June 30, 2006

IV-D-06 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Transaction Business Connection</u>	<u>Description</u>	<u>Amount</u>
Jim Sinclair, Brother to Superintendent, Sinclair Painting	Painting Services	\$12,438
Lakes Printing, Parents of Elementary principal Ann Bass	Printing Services	110
McDonald, Brown, and Fagen Husband of elementary principal Marsha Fagen	Legal Services	285

None of the transactions appear to be a conflict of interest and they appear to be in compliance with board policies.

Recommendation - The District may want to consult legal counsel to determine disposition of this matter.

Response - We will consider the need to consult with legal counsel.

Conclusion - Response accepted.

IV-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

IV-F-06 Board Minutes - No transactions were noted requiring Board approval which had not been approved by the Board.

IV-G-06 Certified Enrollment - No variances were noted in the basic enrollment data certified to the Department of Education.

IV-H-06 Deposits and Investments - No instances of noncompliance were noted with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the District's investment policy.

IV-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.